Michigan State Bar Foundation Report on Financial Statements

Years Ended September 30, 2019 and 2018

Independent Auditor's Report

To the Board of Directors
Michigan State Bar Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan State Bar Foundation (a nonprofit organization), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State Bar Foundation as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maner Costerisan, P.C.
January 15, 2020

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF FINANCIAL POSITION

September 30, 2019 and 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 471,945	$ 798,615
Investments—current	9,797,585	11,185,113
Accounts receivable—IOLTA	154,831	87,832
Accounts receivable	23,093	24,084
Unconditional promises to give	37,569	64,447
Prepaid expenses	18,082	20,008
TOTAL CURRENT ASSETS	10,503,105	12,180,099
UNCONDITIONAL PROMISES TO GIVE, less current portion	92,971	98,521
INVESTMENTS—long-term	3,371,931	3,359,981
EQUIPMENT, net	8,468	14,688
TOTAL ASSETS	$13,976,475	$15,653,289

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES		
Accounts payable		
General	$ 27,157	$ 34,611
State Bar	6,427	6,231
Capital lease obligation, current portion	—	2,507
Grants payable	4,012,187	5,660,464
Deferred revenue	96,575	—
IOLTA payable	448,285	390,225
TOTAL LIABILITIES	4,590,631	6,094,038
NET ASSETS		
Without donor restrictions		
Undesignated	1,184,235	1,195,302
Designated	500,000	500,000
Total without donor restrictions	1,684,235	1,695,302
With donor restrictions	7,701,609	7,863,949
TOTAL NET ASSETS	9,385,844	9,559,251
TOTAL LIABILITIES AND NET ASSETS	$13,976,475	$15,653,289

See notes to financial statements.

Notes to Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Michigan State Bar Foundation have been prepared on the accrual basis in accordance with United States of America generally accepted accounting principles (GAAP). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Net assets—Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets available for use in general operations and not subject to donor or grantor restrictions. The Foundation has designated, from net assets without donor restrictions, net assets to be used for support of future operations and contributions. The appropriated funds at September 30 are as follows:

	2019	2018
Total board designated net assets—operating reserve	$500,000	$500,000

Net assets with donor restrictions—Net assets subject to donor (or grantor) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Michigan State Bar Foundation Statements of Activities

Years Ended September 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Contributions—IOLTA—net (See Note 11)	$ —	$ 1,232,188	$ 1,232,188	$ —	$ 784,028	$ 784,028
Fellows memberships	—	24,509	24,509	—	29,084	29,084
Access to Justice Fund contributions	—	1,160,724	1,160,724	—	1,111,543	1,111,543
Legal Self-Help program grant	—	450,000	450,000	—	450,000	450,000
Filing fees reimbursement	66,080	—	66,080	66,034	—	66,034
Contributions and memorials	231	82,936	83,167	1,050	79,486	80,536
Investment return, net	38,239	290,572	328,811	581,759	1,540,696	2,122,455
Net assets released from restrictions	3,647,745	(3,647,745)	—	3,037,553	(3,037,553)	—
TOTAL REVENUE AND OTHER SUPPORT	3,752,295	(406,816)	3,345,479	3,686,396	957,284	4,643,680
EXPENSES						
Program services						
IOLTA Grants	345,846	—	345,846	279,861	—	279,861
IOLTA Program	532,285	—	532,285	437,431	—	437,431
Fellows Program	26,080	—	26,080	42,061	—	42,061
Filing fees	119,344	—	119,344	161,215	—	161,215
Access to Justice Program	1,538,155	—	1,538,155	1,076,238	—	1,076,238
Civil Justice System Access Program	701,037	—	701,037	700,549	—	700,549
Legal Self-Help Program	450,000	—	450,000	450,000	—	450,000
Franck Program	10,000	—	10,000	35,200	—	35,200
TOTAL PROGRAM SERVICES	3,722,747	—	3,722,747	3,182,555	—	3,182,555
Management and general	36,033	—	36,033	30,514	—	30,514
Fundraising	27,279	—	27,279	10,824	—	10,824
TOTAL EXPENSES	3,786,059	—	3,786,059	3,223,893	—	3,223,893
Change in net assets before unrealized gain (loss) on marketable securities	(33,764)	(406,816)	(440,580)	462,503	957,284	1,419,787
UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES	22,697	244,476	267,173	(497,288)	(1,136,825)	(1,634,113)
CHANGE IN NET ASSETS	(11,067)	(162,340)	(173,407)	(34,785)	(179,541)	(214,326)
NET ASSETS, beginning of year	1,695,302	7,863,949	9,559,251	1,730,087	8,043,490	9,773,577
NET ASSETS, end of year	$1,684,235	$7,701,609	$9,385,844	$1,695,302	$7,863,949	$9,559,251

See notes to financial statements.

Notes to Financial Statements (continued)

These resources originate from IOLTA activities, the Access to Justice Campaign, Civil Justice System Access Program, gifts, grants, bequests, contracts, emergency appeals and investment income earned on investments related to these activities. Other donor restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose has been accomplished.

Functional allocation of expenses—The costs of providing program and other activities have been reported in the statement of activities and changes in net assets. The statement of functional expenses presents the natural classification of expenses that are allocated to program or supporting functions of the Organization. Allocated expenses primarily consist of compensation of officers and related benefits, leased employees, occupancy, information technology, professional fees, meetings & travel and various other expense classifications necessary to support the day-to-day operations of the Organization. Employee driven expenses are allocated based on salary and wage analysis. All other allocated expenses utilize management's estimated use of resources.

The following is a definition of the Foundation's significant program services:

- IOLTA Grants and IOLTA Program—Grants and related expenses regarding improvements in the administration of justice and civil legal services to the poor.
- Fellows Program—A membership program that generates revenue for the Foundation's public service activities.
- Filing fees—Funds expended to provide grants for civil legal services to the poor.
- Access to Justice Program—Grants and related expenses regarding civil legal services to the poor.
- Civil Justice System Access Program—Grants and related expenses regarding access to the civil justice system for low-income residents of Michigan.
- Legal Self-Help Program—Grants and related expenses regarding provision of legal information and forms online, support for and operation of legal self-help centers, and training related to legal self-help.
- Other Programs—Miscellaneous programs administered by the Foundation.

Cash and cash equivalents consist of cash accounts and money market funds.

Michigan State Bar Foundation Statement of Functional Expenses

Years Ended September 30, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Grants	$2,930,504	$ —	$ —	$2,930,504	$2,419,280	$ —	$ —	$2,419,280
Compensation of officers and related	317,115	11,355	9,861	338,331	300,007	8,302	5,357	313,666
Professional fees	25,857	3,805	—	29,662	42,027	5,306	—	47,333
Office expenses	23,816	3,253	12,188	39,257	24,012	734	4,932	29,678
Information technology	20,611	965	—	21,576	5,475	1,097	—	6,572
Occupancy	37,534	1,757	—	39,291	36,499	1,423	—	37,922
Conferences, conventions, etc.	31,617	1,405	4,980	38,002	36,519	3,820	535	40,874
Interest	161	8	—	169	413	16	—	429
Depreciation	5,942	278	—	6,220	6,819	266	—	7,085
Insurance	6,991	327	—	7,318	6,937	270	—	7,207
Leased employees	299,385	12,060	—	311,445	254,274	9,029	—	263,303
Dues and subscriptions	14,882	286	250	15,418	9,434	196	—	9,630
All other expenses	8,332	534	—	8,866	40,859	55	—	40,914
	$ 3,722,747	$36,033	$27,279	$3,786,059	$3,182,555	$30,514	$10,824	$3,223,893

See notes to financial statements.

Notes to Financial Statements (continued)

Investments—Investments with readily determinable fair values are reported at fair value. Net investment return or loss is included in the statement of activities and consists of interest and dividend income, realized gains and losses, less investment expenses. Amounts on deposit for investment purposes are not considered cash equivalents for cash flows purposes. Losses on investments of net assets restricted in perpetuity in excess of the original gift reduce net assets without donor restrictions. Subsequent related gains are recorded as increases in net assets without donor restriction until the gain offsets the amount of losses previously recorded as decreases in net assets without donor restriction.

Unconditional promises to give and accounts receivable—these amounts are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. See Note 6 for changes in the valuation allowance.

Contributions—Contributions received are recorded as support with or without restriction, depending on the existence or nature of any donor restrictions or the timing of the receipt.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Promises to give—Unconditional promises to give are recognized as revenue in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Long-term unconditional promises to give are initially recorded as net assets with donor restriction.

Prepaid expenses consist primarily of advance payments for insurance and maintenance agreements.

Equipment is stated at cost. Depreciation is computed over the estimated useful lives of the assets on the straight-line method and the Foundation's capitalization policy is $1,000.

Contract services for personnel consist of reimbursement to other entities for services provided to the Foundation. These personnel are covered under the benefit plans of their respective entities.

Reclassification—Certain prior year numbers have been reclassified to be in conformity with current year presentation.

NOTE 2—ORGANIZATION, RISKS AND UNCERTAINTIES

The Michigan State Bar Foundation was formed on September 30, 1947 as a non-profit corporation under U.S. Internal Revenue Code Section 501(c)(3). Created in recognition of the legal profession's responsibilities to the public, the Foundation provides financial assistance to educational, research and public service projects that promote advancements in the administration of justice, further a better understanding of our legal system and improve relations among the legal profession, the courts and the public, and further the delivery of legal services to the poor. No provision for income taxes is required due to the Foundation's tax-exempt status.

Credit risk—The Foundation is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and investments, promises to give and accounts receivable.

The Foundation places its cash and investments with financial institutions. Although such cash balances exceeded the federally insured limits at certain times during the year and at year-end they are, in the opinion of management, subject to minimal risk. Certain investments are subject to changes in fair value daily.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF CASH FLOWS

Years Ended September 30, 2019 and 2018

	2019	2018
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities		
Change in net assets	$ (173,407)	$ (214,326)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	6,220	7,084
Realized (gain) loss on sale of marketable securities	(14,803)	(1,467,997)
Unrealized (gain) loss on marketable securities	(267,173)	1,634,113
Permanently restricted contributions	(11,950)	(118,830)
Accounts receivable	(66,008)	(10,695)
Unconditional promises to give	32,428	23,586
Accrued interest receivable	—	42,057
Prepaid expenses	1,926	(15,151)
Accounts payable and IOLTA payable	50,802	(54,534)
Deferred revenue	96,575	—
Grants payable	(1,648,277)	(2,309,553)
Total adjustments	(1,820,260)	(2,269,920)
Net cash used by operating activities	(1,993,667)	(2,484,246)
Cash flows from investing activities		
Purchase of investments	(328,474)	(17,204,111)
Sale of investments	1,986,028	19,395,968
Purchase of property and equipment	—	(3,320)
Net cash provided by investing activities	1,657,554	2,188,537
Cash flows from financing activities		
Principal payments on capital lease obligation	(2,507)	(3,116)
Donations of permanently restricted funds	11,950	118,830
Net cash provided (used) by financing activities	9,443	115,714
NET DECREASE IN CASH AND CASH EQUIVALENTS	(326,670)	(179,995)
CASH AND CASH EQUIVALENTS		
Beginning of year	798,615	978,610
End of year	$471,945	$798,615

See notes to financial statements.

Notes to Financial Statements (continued)

In the preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state, and local tax returns generally remain open for examination by the various taxing authorities for a period of 3 to 4 years.

The Foundation evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through January 15, 2020, which is the date the financial statements were available to be issued.

NOTE 3—LIQUIDITY AND AVAILABILITY

The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and equivalents, and various investments (see Notes 4 and 5).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following at September 30, 2019 and 2018:

	2019	2018
Financial assets available at year-end		
Cash and equivalents	$ 471,945	$ 798,615
Investments	13,169,516	14,545,094
Accounts receivable—IOLTA	154,831	87,832
Accounts receivable	23,093	24,084
Unconditional promises to give	130,540	162,968
Total financial assets available at year-end	13,949,925	15,618,593
Donor-imposed restrictions		
Less subject to expenditure for specified purpose	(2,278,855)	(2,487,820)
Endowment fund		
Less purpose restricted funds	(2,050,823)	(2,016,148)
Less perpetual funds	(3,371,931)	(3,359,981)
Add amount appropriated for next year	3,519,380	2,751,696
Net financial assets after donor-imposed restrictions	9,767,696	10,506,340
Board designations		
Less designated funds	(500,000)	(500,000)
Financial assets available to meet cash needs for general expenditures within one year	$9,267,696	$10,006,340

Amounts not available include amounts set aside for restricted purposes and amounts set aside for the endowment that could be drawn upon if the governing board approves that action. Amounts appropriated from either endowment or net assets with donor restrictions within one year of the date of the statement of financial position are considered available.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The Foundation's governing board has designated a portion of its unrestricted resources as a one year operating reserve in the event that revenues and available funds are diminished or eliminated to the point that the Foundation could not operate. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the board.

The Foundation's governing board has determined that the amount of financial assets available to meet cash needs for general expenditures within one year is appropriate in order to continue to provide consistent support to organizations who rely on funding provided to them by the Foundation should the Foundation's financial condition change. This is consistent with the mission of the Foundation as described in Note 2 to the financial statements.

NOTE 4—INVESTMENTS

Investments consist of mutual funds which consist of domestic equity funds, international equity funds, domestic bond funds, investment grade bond funds, international bond funds, bond index funds, corporate bond index funds, and treasury index funds. IOLTA funds are not invested in equities or equity funds.

	Cost Basis	Fair Value	Unrealized Gain (Loss)
Investments			
September 30, 2019			
Mutual funds—equities	$ 5,123,798	$ 5,158,539	$ 34,741
Mutual funds—fixed income	7,772,966	8,010,977	238,011
Total	$12,896,764	$ 13,169,516	$272,752
Investments			
September 30, 2018			
Mutual funds—equities	$5,112,519	$5,170,587	$ 58,068
Mutual funds—fixed income	9,426,996	9,374,507	(52,489)
Total	$ 14,539,515	$14,545,094	$ 5,579

Investments are presented in the statements of financial position as follows:

	2019	2018
Investments—current	$ 9,797,585	$ 11,185,113
Investments—long-term	3,371,931	3,359,981
	$13,169,516	$14,545,094

Net investment return consists of the following as of September 30:

	2019	2018
Interest and dividends	$339,546	$ 683,514
Realized gain (loss)	14,803	1,467,997
Investment expenses	(25,538)	(29,056)
Investment return, net	328,811	2,122,455
Unrealized gain (loss)	267,173	(1,634,113)
Total	$595,984	$ 488,342

NOTE 5—FAIR VALUE MEASUREMENTS

The Foundation is subject to the provisions of accounting standards to report certain assets at fair value. The standard establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy are described below.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Foundation's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2019 and 2018.

Mutual funds: Valued at the daily closing price, net asset value (NAV) as reported by the various mutual funds.

From time to time, changes in valuation techniques may result in reclassification of an investment's assigned level within the hierarchy from year to year.

The following is a market value summary by the level of the inputs used, as of September 30, 2019 and 2018, in evaluating the Foundation's assets carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

Description	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total September 30, 2019
Valued on a recurring basis				
Mutual funds—equities				
Passive domestic equities	$3,253,522	$ —	$ —	$3,253,522
Passive international equities	1,905,017	—	—	1,905,017
Mutual funds—fixed income				
Passive domestic bonds	936,510	—	—	936,510
Intermediate investment grade bonds	311,751	—	—	311,751
Short investment grade bonds	363,091	—	—	363,091
Passive international bonds	694,156	—	—	694,156
Short term bond index	1,944,014	—	—	1,944,014
Short term corporate bond index	1,885,773	—	—	1,885,773
Short term treasury index	1,875,682	—	—	1,875,682
Total	$13,169,516	$ —	$ —	$13,169,516

Description	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total September 30, 2018
Valued on a recurring basis				
Mutual funds: equities				
Passive domestic equities	$3,235,433	$ —	$ —	$ 3,235,433
Passive international equities	1,935,154	—	—	1,935,154
Mutual funds—fixed income				
Passive domestic bonds	863,308	—	—	863,308
Intermediate investment grade bonds	288,901	—	—	288,901
Short investment grade bonds	356,066	—	—	356,066
Passive international bonds	645,712	—	—	645,712
Short term bond index	2,455,845	—	—	2,455,845
Short term corporate bond index	2,388,290	—	—	2,388,290
Short term treasury index	2,376,385	—	—	2,376,385
Total	$14,545,094	$ —	$ —	$14,545,094

NOTE 6—UNCONDITIONAL PROMISES TO GIVE

	2019			
	Access to Justice	Fellows Program	Total	2018
Gross amounts due in				
Less than one year	$ 20	$ 38,300	$ 38,320	$ 65,875
One to five years	8,750	94,800	103,550	116,450
More than five years	—	14,750	14,750	16,800
Total	$8,770	$147,850	$156,620	$199,125
Current portion—net	$ 20	$ 37,549	$ 37,569	$ 64,447
Long-term portion—net	8,476	84,495	92,971	98,521
Total—net	$8,496	$122,044	$130,540	$162,968

The discount rate used to determine the net amounts above was 2% and 3%, which amounted to $9,350 and $16,367 for 2019 and 2018, respectively.

The above net amounts are net of an allowance for uncollectible amounts of $16,730 and $19,790 at September 30, 2019 and 2018, respectively.

NOTE 7—EQUIPMENT AND DEPRECIATION

Equipment at September 30 consists of the following:

	2019	2018
Computers and equipment	$58,598	$58,598
Office furniture	14,057	14,057
Leasehold improvements	1,525	1,525
	74,180	74,180
Less accumulated depreciation	65,712	59,492
Equipment—net	$ 8,468	$14,688
Depreciation expense	$ 6,220	$ 7,084

NOTE 8—LEASES

Capital Lease

The Foundation leases a copier under a capital lease. The economic substance of the lease is that the Foundation is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities. During the year ended September 30, 2019, the copier lease expired, and the Foundation is now on a month-to-month lease agreement for the copier.

The copier is included in the Foundation's capitalized equipment with a cost of $14,173 and accumulated depreciation of $14,173. Amortization of assets held under capital lease is included with depreciation expense.

Operating Lease

Facilities are leased under agreements running through September 30, 2020. Rental expense for the years ended September 30, 2019 and 2018 was approximately $39,291 and $37,922, respectively. Minimum future rental amounts are calculated on the base monthly rent amount which includes office space, phone, and internet. The rent payment is adjusted annually by the Consumer Price Index. The maximum annual increase per adjustment is 5%.

Minimum future rentals under this lease are as follows:

Year ending September 30,	
2020	$44,384

NOTE 9—NET ASSETS WITH DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes.

Purpose and time restrictions accomplished and other items:

	2019	2018
IOLTA—grants	$ 345,846	$ 279,861
IOLTA expenses	525,866	437,431
Fellows memberships	47,350	47,450
Franck program	10,000	35,200
Access to Justice program grants and expenses	1,567,646	1,087,062
Civil Justice System Access program	701,037	700,549
Legal Self-Help program	450,000	450,000
	$3,647,745	$3,037,553

Net assets with donor restrictions subject to passage of time or restricted purpose.

	2019	2018
IOLTA program	$ 485,307	$ 84,317
Fellows memberships to be collected	122,044	144,885
Franck program	143,044	149,091
Access to Justice program time and purpose restrictions	2,517,877	2,656,235
Civil Justice System Access program	1,026,628	1,442,598
Special programs	34,778	26,842
	$ 4,329,678	$4,503,968

Endowment funds consist of the following.

	2019	2018
Access to Justice Program	$3,371,931	$3,359,981

NOTE 10—ENDOWMENT

The Foundation's endowment consists of one individual donor-restricted fund established for the following purpose.

Access to Justice—This program seeks to increase resources for civil legal services for low-income persons. The principal is restricted in perpetuity by option of the donor. Income and capital gains are restricted for the purpose of the program.

As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA) as permitting the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as net assets restricted in perpetuity (a) the original value of initial gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the Fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation

5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Changes in endowment net assets for the year ending September 30, 2019 were as follows:

	With Donor Restrictions		
	Accumulated Investment Gains	Original gifts in perpetuity by donor	Total
Endowment net assets, beginning of year, October 1, 2018	$ 2,016,148	$3,359,981	$5,376,129
Investment return, net			
Investment income	136,635	—	136,635
Investment expenses	(10,143)	—	(10,143)
Net gain (realized and unrealized)	73,936	—	73,936
Total investment return, net	200,428	—	200,428
Contributions	—	11,950	11,950
Appropriation of endowment assets for expenditure	(165,753)	—	(165,753)
Endowment net assets, end of year, September 30, 2019	$2,050,823	$3,371,931	$5,422,754

Changes in endowment net assets for the year ending September 30, 2018 were as follows:

	With Donor Restrictions		
	Accumulated Investment Gains	Original gifts in perpetuity by donor	Total
Endowment net assets, beginning of year, October 1, 2017	$1,713,443	$3,241,151	$4,954,594
Investment return, net			
Investment income	349,100	—	349,100
Investment expenses	(6,518)	—	(6,518)
Net gain (realized and unrealized)	14,701	—	14,701
Total investment return, net	357,283	—	357,283
Contributions	—	118,830	118,830
Appropriation of endowment assets for expenditure	(54,578)	—	(54,578)
Endowment net assets, end of year, September 30, 2018	$2,016,148	$3,359,981	$5,376,129

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of September 30, 2019 and 2018 respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce the following results.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Endowment funds available for spending are determined by the Foundation using a total return system. The spending policy will use the average of the market value of the fund as of September 30 for the previous five years. At the end of each successive fiscal year, the most recent year will be added and the initial year will be dropped. The calculation is as follows:

a. Each year a five-year rolling average of the market value is determined as of September 30.

b. The amount which can be spent will be up to 5% of the average market value calculated in "a" above.

The funds that may be spent under this spending policy for a particular endowment fund may be drawn from both ordinary income earned (i.e., dividends, interest, rents, royalties, etc.) and capital appreciation, both realized and unrealized, for that endowment fund. All income and appreciation not needed to meet spending needs for a particular endowment fund is credited directly to that fund and reinvested. A designated endowment recipient may elect to reinvest the spending amount available rather than receive payment.

NOTE 11—RESTRICTED ACTIVITIES

Franck Program—(Michael Franck Fund for Professional Responsibility). The income and principal are restricted to the furtherance of professional responsibility.

IOLTA Program (Interest on Lawyer's Trust Accounts)—The Michigan Supreme Court issued Administrative Order 1990-2 that the Board of Trustees of the Michigan State Bar Foundation would administer the IOLTA Program established pursuant to amendment of Rule 1.15 of the Michigan Rules of Professional Conduct (MRPC). Administrative Order 1997-9, effective November 14, 1997, modified Order 1990-2. The Michigan Supreme Court also adopted amendments to MRPC 1.15, effective October 18, 2005.

After administrative expenses, the IOLTA funds are to be distributed by the Foundation consistent with administrative orders issued by the Michigan Supreme Court. Under the current order, IOLTA funds distributed to the Michigan Supreme Court for Gender/Racial/Ethnic related issues and to the Michigan Supreme Court Historical Society are reported in an agency capacity.

The following is a summary of the IOLTA activity for the years ended September 30:

	2019	2018
IOLTA funds (accrual basis)—net of bank service charges	$1,375,846	$ 852,148
Less allocation for Gender/Racial/Ethnic Related Issues and Supreme Court Historical Society	(143,658)	(68,120)
IOLTA revenue—net of funds received in an agency capacity	$1,232,188	$784,028

Calculation of funds received in an agency capacity:

	2019	2018
IOLTA funds (accrual basis)	$1,375,846	$852,148
Administrative expenses and investment activity	(533,301)	(457,732)
IOLTA funds—net	$ 842,545	$394,416

IOLTA revenues presented in the Statement of Activities are reported net of any applicable fees charged by financial institutions. For the years ended September 30, 2019 and 2018, fees charged by institutions were $8,461 and $8,839, respectively.

2019

	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	$842,545	$842,545	$842,545
Allocation per administrative order	10%	5%	15%
	84,255	42,127	126,382
Allocation of accumulated funds at beginning of year	370,349	19,876	390,225
Interest earned	14,355	2,920	17,275
Total funds available	468,959	64,923	533,882
Payments made	(65,721)	(19,876)	(85,597)
IOLTA payable, end of year	$403,238	$ 45,047	$448,285

2018

	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	$ 394,416	$394,416	$394,416
Allocation per administrative order	10%	5%	15%
	39,442	19,721	59,163
Allocation of accumulated funds at beginning of year	435,447	16,130	451,577
Interest earned	8,801	155	8,956
Total funds available	483,690	36,006	519,696
Payments made	(113,341)	(16,130)	(129,471)
IOLTA payable, end of year	$370,349	$ 19,876	$390,225

NOTE 12—BENEFICIAL INTEREST IN ASSETS HELD AT CAPITAL REGION COMMUNITY FOUNDATION

An Access to Justice Fund has been established at the Capital Region Community Foundation with the Michigan State Bar Foundation as the beneficiary. Funds contributed by third party donors are held in the Access to Justice Fund and distributions from the fund are made in accordance with the spending policy of the Capital Region Community Foundation. The Capital Region Community Foundation retains variance power and therefore these amounts are not included in the Michigan State Bar Foundation's Statement of Financial Position. The assets held in this endowment fund at the Capital Region Community Foundation were valued at $2,398,500 and $2,467,904 at September 30, 2019 and 2018, respectively.

NOTE 13—NEW ACCOUNTING STANDARD

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities* (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. In addition, ASU 2016-14 removes the requirement that not-for-profit entities that chose to prepare the statements of cash flows using the direct method must also present a reconciliation (the indirect method). The Foundation adopted ASU No. 2016-14 for the year ending September 30, 2019. The September 30, 2018 comparative information has been reclassified to conform to the current year presentation.