

Michigan State Bar Foundation Report on Financial Statements

Years Ended September 30, 2020 and 2019

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, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2020 and 2019, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, on our consideration of Michigan State Bar Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Michigan State Bar Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan State Bar Foundation's internal control over financial reporting and compliance.

Maner Costerisan, P.C.

January 29, 2021

**MICHIGAN STATE BAR FOUNDATION
STATEMENTS OF FINANCIAL POSITION**

September 30, 2020 and 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,051,754	\$ 471,945
Investments — current	8,988,129	9,797,585
Accounts receivable — IOLTA	133,655	154,831
Accounts receivable	24,301	23,093
Grant receivable — MSHDA	982,938	—
Unconditional promises to give	79,774	37,569
Prepaid expenses	10,911	18,082
TOTAL CURRENT ASSETS	11,271,462	10,503,105
UNCONDITIONAL PROMISES		
TO GIVE, less current portion	74,620	92,971
INVESTMENTS — long-term	3,373,281	3,371,931
EQUIPMENT, net	9,665	8,468
TOTAL ASSETS	\$14,729,028	\$13,976,475
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable		
General	\$ 25,993	\$ 27,157
State Bar	21,599	6,427
Grants payable	3,056,796	4,012,187
Refundable advances	1,015,679	96,575
IOLTA payable	510,313	448,285
TOTAL LIABILITIES	4,630,380	4,590,631
NET ASSETS		
Without donor restrictions		
Undesignated	1,280,118	1,184,235
Designated	500,000	500,000
Total without donor restrictions	1,780,118	1,684,235
With donor restrictions	8,318,530	7,701,609
TOTAL NET ASSETS	10,098,648	9,385,844
TOTAL LIABILITIES AND NET ASSETS	\$14,729,028	\$13,976,475

See notes to financial statements.

assets to be used for support of future operations and contributions. The appropriated funds at September 30 are as follows:

	2020	2019
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. 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.
- MSHDA Program — Grants and related expenses regarding the eviction diversion program.
- 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.

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.

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

Michigan State Bar Foundation Statements of Activities

Years Ended September 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Contributions — IOLTA — net (See Note 11)	\$ —	\$ 1,376,835	\$ 1,376,835	\$ —	\$ 1,232,188	\$ 1,232,188
Fellows memberships	—	14,026	14,026	—	24,509	24,509
Access to Justice Fund contributions	—	2,259,599	2,259,599	—	1,160,724	1,160,724
Legal Self-Help program grant	—	450,000	450,000	—	450,000	450,000
Grant revenue — federal	1,327,719	—	1,327,719	—	—	—
Filing fees reimbursement	56,284	—	56,284	66,080	—	66,080
Contributions and memorials	657	95,261	95,918	231	82,936	83,167
Investment return, net	47,545	299,477	347,022	38,239	290,572	328,811
Net assets released from restrictions	4,331,766	(4,331,766)	—	3,647,745	(3,647,745)	—
TOTAL REVENUE AND OTHER SUPPORT	5,763,971	163,432	5,927,403	3,752,295	(406,816)	3,345,479
EXPENSES						
Program services						
IOLTA Grants	540,000	—	540,000	345,846	—	345,846
IOLTA Program	462,307	—	462,307	532,285	—	532,285
Fellows Program	8,388	—	8,388	26,080	—	26,080
MSHDA Program	1,327,719	—	1,327,719	—	—	—
Filing fees	136,441	—	136,441	119,344	—	119,344
Access to Justice Program	2,133,120	—	2,133,120	1,538,155	—	1,538,155
Civil Justice System Access Program	700,120	—	700,120	701,037	—	701,037
Legal Self-Help Program	450,000	—	450,000	450,000	—	450,000
Franck Program	—	—	—	10,000	—	10,000
TOTAL PROGRAM SERVICES	5,758,095	—	5,758,095	3,722,747	—	3,722,747
Management and general	25,045	—	25,045	36,033	—	36,033
Fundraising	17,524	—	17,524	27,279	—	27,279
TOTAL EXPENSES	5,800,664	—	5,800,664	3,786,059	—	3,786,059
Change in net assets before unrealized gain (loss) on marketable securities	(36,693)	163,432	126,739	(33,764)	(406,816)	(440,580)
UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES	132,576	453,489	586,065	22,697	244,476	267,173
CHANGE IN NET ASSETS	95,883	616,921	712,804	(11,067)	(162,340)	(173,407)
NET ASSETS, beginning of year	1,684,235	7,701,609	9,385,844	1,695,302	7,863,949	9,559,251
NET ASSETS, end of year	<u>\$1,780,118</u>	<u>\$8,318,530</u>	<u>\$10,098,648</u>	<u>\$1,684,235</u>	<u>\$7,701,609</u>	<u>\$9,385,844</u>

See notes to financial statements.

Notes to Financial Statements (continued)

Accounts receivable and grants receivable — Accounts receivable and grants receivable represent consideration from third parties, of which the Organization has an unconditional right to receive. Accounts receivable and grants receivable 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. Currently, no allowance for doubtful accounts is considered necessary. Changes to the valuation allowance have not been material to the financial statements. Beginning and ending balances for accounts receivable and grants receivable are reported as follows for the year ended September 30:

	2020	2019
Receivables, beginning of year	<u>\$177,924</u>	<u>\$111,916</u>

	2020	2019
Receivables, end of year	<u>\$157,956</u>	<u>\$177,924</u>
Grants receivable, beginning of year	<u>\$—</u>	<u>\$—</u>
Grants receivable, end of year	<u>\$982,938</u>	<u>\$—</u>

Unconditional promises to give — 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.

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

Michigan State Bar Foundation Statement of Functional Expenses

Years Ended September 30, 2020 and 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Grants	\$5,015,164	\$ —	\$ —	\$5,015,164	\$2,930,504	\$ —	\$ —	\$2,930,504
Compensation of officers and related	294,350	9,034	14,258	317,642	317,115	11,355	9,861	338,331
Professional fees	22,270	5,223	298	27,791	25,857	3,805	—	29,662
Office expenses	13,250	1,310	2,700	17,260	23,816	3,253	12,188	39,257
Information technology	27,034	1,073	—	28,107	20,611	965	—	21,576
Occupancy	34,673	1,376	—	36,049	37,534	1,757	—	39,291
Conferences, conventions, etc.	20,757	1,629	268	22,654	31,617	1,405	4,980	38,002
Interest	—	—	—	—	161	8	—	169
Depreciation	3,306	131	—	3,437	5,942	278	—	6,220
Insurance	7,245	287	—	7,532	6,991	327	—	7,318
Leased employees	301,013	4,453	—	305,466	299,385	12,060	—	311,445
Dues and subscriptions	7,383	67	—	7,450	14,882	286	250	15,418
All other expenses	11,650	462	—	12,112	8,332	534	—	8,866
	<u>\$5,758,095</u>	<u>\$25,045</u>	<u>\$17,524</u>	<u>\$5,800,664</u>	<u>\$3,722,747</u>	<u>\$36,033</u>	<u>\$27,279</u>	<u>\$3,786,059</u>

See notes to financial statements.

Notes to Financial Statements (continued)

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.

Refundable advances — The Organization records deferred revenue when cash payments are received or due in advance of the Organization's performance, including amounts which are refundable. Beginning and ending balances for refundable advances is reported as follows for the year ended September 30:

	2020	2019
Refundable advances, beginning of year	\$ 96,575	\$ —
Refundable advances, end of year	<u>\$1,015,679</u>	<u>\$ 96,575</u>

Revenue Recognition

Membership Dues Revenue — Revenue from contracts with members for annual dues is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing membership to its members. Revenue is recognized as performance obligations are satisfied, which is ratably over the membership term. As a result, accounts receivable are recorded for any amount for which the Organization has a right to invoice but for which services have not been provided. Membership dues are nonrefundable.

Contribution Revenue

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-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.

Unconditional contributions expected to be collected within one year are reported at their net realizable value. Unconditional contributions expected to be collected in future years are initially reported at fair value

determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional contributions depend on the occurrence of a specified future and uncertain event to bind the donor and are recognized as assets and revenue when the conditions are substantially met, and the gift becomes unconditional.

The following schedule shows the Organization's revenues disaggregated according to the timing of transfer of goods or services for the year ended September 30:

	2020	2019
Contract revenue recognized over time		
Fellows membership	\$ 14,026	\$ 24,509
Total contract revenue recognized over time	14,026	24,509
Contributions — IOLTA — net	1,376,835	1,232,188
Access to Justice Fund contributions	2,259,599	1,160,724
Legal Self-Help program grant	450,000	450,000
Grant revenue — federal	1,327,719	—
Filing fees reimbursement	56,284	66,080
Contributions and memorials	95,918	83,167
Investment return, net	347,022	328,811
Total revenue and support	<u>\$5,927,403</u>	<u>\$3,345,479</u>

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.

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF CASH FLOWS

Years Ended September 30, 2020 and 2019

	2020	2019
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities		
Change in net assets	\$ 712,804	\$ (173,407)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	3,437	6,220
Realized (gain) loss on sale of marketable securities	(89,019)	(14,803)
Unrealized (gain) loss on marketable securities	(586,065)	(267,173)
Contributions restricted for long-term purposes	(1,350)	(11,950)
Accounts receivable	19,968	(66,008)
Grant receivable — MSHDA	(982,938)	—
Unconditional promises to give	(23,854)	32,428
Prepaid expenses	7,171	1,926
Accounts payable and IOLTA payable	76,036	50,802
Refundable advances	919,104	96,575
Grants payable	(955,391)	(1,648,277)
Total adjustments	(1,611,189)	(1,820,260)
Net cash used by operating activities	(898,385)	(1,993,667)
Cash flows from investing activities		
Purchase of investments	(473,934)	(328,474)
Sale of investments	1,957,125	1,986,028
Purchase of property and equipment	(6,347)	—
Net cash provided by investing activities	1,476,844	1,657,554
Cash flows from financing activities		
Principal payments on capital lease obligation	—	(2,507)
Investment in perpetual endowment	1,350	11,950
Net cash provided by financing activities	1,350	9,443
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	579,809	(326,670)
CASH AND CASH EQUIVALENTS		
Beginning of year	471,945	798,615
End of year	<u>\$1,051,754</u>	<u>\$471,945</u>

See notes to financial statements.

Notes to Financial Statements (continued)

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.

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 three to four 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 29, 2021, which is the date the financial statements were available to be issued.

The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Organization's contributors, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Organization's financial condition and results of operations is uncertain.

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, 2020 and 2019:

	2020	2019
Financial assets available at year-end		
Cash and equivalents	\$1,051,754	\$471,945
Investments	12,361,410	13,169,516
Accounts receivable — IOLTA	133,655	154,831
Accounts receivable	24,301	23,093
Grant receivable — MSHDA	982,938	—
Unconditional promises to give	154,394	130,540
Total financial assets available at year-end	14,708,452	13,949,925
Donor-imposed restrictions		
Less subject to expenditure for specified purpose	(2,561,219)	(2,278,855)
Endowment fund		
Less purpose restricted funds	(2,384,030)	(2,050,823)
Less perpetual funds	(3,373,281)	(3,371,931)
Add amount appropriated for next year	3,446,103	3,519,380
Net financial assets after donor-imposed restrictions	9,836,025	9,767,696
Board designations		
Less designated funds	(500,000)	(500,000)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$9,336,025</u>	<u>\$9,267,696</u>

Amounts not available include amounts set aside for restricted purposes and amounts set aside for the endowment that could be drawn upon if the

Notes to Financial Statements (continued)

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, 2020			
Mutual funds — equities	\$ 5,520,191	\$ 6,036,552	\$516,361
Mutual funds — fixed income	5,982,403	6,324,859	342,456
Total	<u>\$11,502,594</u>	<u>\$12,361,411</u>	<u>\$858,817</u>
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	<u>\$12,896,764</u>	<u>\$13,169,516</u>	<u>\$272,752</u>

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

	2020	2019
Investments — current	\$ 8,988,129	\$ 9,797,585
Investments — long-term	3,373,281	3,371,931
	<u>\$12,361,410</u>	<u>\$13,169,516</u>

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

	2020	2019
Interest and dividends	\$281,867	\$339,546
Realized gain (loss)	89,019	14,803
Investment expenses	(23,864)	(25,538)
Investment return, net	347,022	328,811
Unrealized gain (loss)	586,065	267,173
Total	<u>\$933,087</u>	<u>\$595,984</u>

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, 2020 and 2019.

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, 2020 and 2019, 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	Level 2	Level 3	Total September 30, 2020
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unob- servable Inputs	
Valued on a recurring basis				
Mutual funds — equities				
Passive domestic equities	\$3,704,800	\$ —	\$ —	\$3,704,800
Passive international equities	2,331,753	—	—	2,331,753
Mutual funds — fixed income				
Passive domestic bonds	906,891	—	—	906,891
Long investment grade bonds	246,319	—	—	246,319
Intermediate investment grade bonds	286,628	—	—	286,628
Short investment grade bonds	406,369	—	—	406,369
Passive international bonds	313,829	—	—	313,829
Short term bond index	1,417,056	—	—	1,417,056
Short term corporate bond index	1,378,131	—	—	1,378,131
Short term treasury index	1,369,634	—	—	1,369,634
Total	<u>\$12,361,410</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$12,361,410</u>

Notes to Financial Statements (continued)

Description	Level 1	Level 2	Level 3	Total September 30, 2019
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unob- servable Inputs	
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	<u>\$13,169,516</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$13,169,516</u>

NOTE 6 — UNCONDITIONAL PROMISES TO GIVE

	2020			2019
	Access to Justice	Fellows Program	Total	
Gross amounts due in				
Less than one year	\$46,490	\$ 33,950	\$ 80,440	\$ 38,320
One to five years	6,500	78,850	85,350	103,550
More than five years	—	11,350	11,350	14,750
Total	<u>\$52,990</u>	<u>\$124,150</u>	<u>\$177,140</u>	<u>\$156,620</u>
Current portion — net	\$46,490	\$ 33,284	\$ 79,774	\$ 37,569
Long-term portion — net	6,434	68,186	74,620	92,971
Total — net	<u>\$52,924</u>	<u>\$101,470</u>	<u>\$154,394</u>	<u>\$130,540</u>

The discount rate used to determine the net amounts above was 2% and 2%, which amounted to \$7,519 and \$9,350 for 2020 and 2019, respectively.

The above net amounts are net of an allowance for uncollectible amounts of \$15,227 and \$16,730 at September 30, 2020 and 2019, respectively.

NOTE 7 — EQUIPMENT AND DEPRECIATION

Equipment at September 30 consists of the following:

	2020	2019
Computers and equipment	\$57,729	\$58,598
Office furniture	14,057	14,057
Leasehold improvements	1,525	1,525
	73,311	74,180
Less accumulated depreciation	63,646	65,712
Equipment — net	<u>\$ 9,665</u>	<u>\$ 8,468</u>
Depreciation expense	<u>\$ 3,437</u>	<u>\$ 6,220</u>

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, 2021. Rental expense for the years ended September 30, 2020 and 2019 was approximately \$39,326 and \$39,291, 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,

2021	<u>\$44,384</u>
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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:

	2020	2019
IOLTA — grants	\$ 540,000	\$ 345,846
IOLTA expenses	462,307	525,866
Fellows memberships	34,600	47,350
Franck program	—	10,000
Access to Justice program		
grants and expenses	2,144,739	1,567,646
Civil Justice System Access program	700,120	701,037
Legal Self-Help program	450,000	450,000
	<u>\$4,331,766</u>	<u>\$3,647,745</u>

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

	2020	2019
IOLTA program	\$ 974,287	\$ 485,307
Fellows memberships to be collected	101,470	122,044
Franck program	146,487	143,044
Access to Justice program		
time and purpose restrictions	3,181,136	2,517,877
Civil Justice System Access program	411,830	1,026,628
Special programs	130,039	34,778
	<u>\$4,945,249</u>	<u>\$4,329,678</u>

Endowment funds consist of the following.

	2020	2019
Access to Justice Program	<u>\$3,373,281</u>	<u>\$3,371,931</u>

Notes to Financial Statements (continued)

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, 2020 were as follows:

	With Donor Restrictions		Total
	Accumulated Investment Gains	Original Gifts in Perpetuity by Donor	
Endowment net assets, beginning of year, October 1, 2019	\$2,050,823	\$3,371,931	\$5,422,754
Investment return, net			
Investment income	136,684	—	136,684
Investment expenses	(10,614)	—	(10,614)
Net gain (realized and unrealized)	422,976	—	422,976
Total investment return, net	549,046	—	549,046
Contributions	—	1,350	1,350
Appropriation of endowment assets for expenditure	(215,839)	—	(215,839)
Endowment net assets, end of year, September 30, 2020	\$2,384,030	\$3,373,281	\$ 5,757,311

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

	With Donor Restrictions		Total
	Accumulated Investment Gains	Original Gifts in Perpetuity by Donor	
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

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, 2020 and 2019 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:

	2020	2019
IOLTA funds (accrual basis) — net of bank service charges	\$1,556,555	\$1,375,846
Less allocation for Gender/Racial/Ethnic Related Issues and Supreme Court Historical Society	(179,720)	(143,658)
IOLTA revenue — net of funds received in an agency capacity	<u>\$1,376,835</u>	<u>\$1,232,188</u>

Calculation of funds received in an agency capacity:

	2020	2019
IOLTA funds (accrual basis)	\$1,556,555	\$1,375,846
Administrative expenses and investment activity	(412,658)	(533,301)
IOLTA funds — net	<u>\$1,143,897</u>	<u>\$ 842,545</u>

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, 2020 and 2019, fees charged by institutions were \$8,486 and \$8,461, respectively.

	2020		
	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds — net	\$1,143,897	\$1,143,897	\$1,143,897
Allocation per administrative order	10%	5%	15%
	114,390	57,195	171,585
Allocation of accumulated funds at beginning of year	403,238	45,047	448,285
Interest earned	7,423	712	8,135
Total funds available	525,051	102,954	628,005
Payments made	(72,645)	(45,047)	(117,692)
IOLTA payable, end of year	<u>\$ 452,406</u>	<u>\$ 57,907</u>	<u>\$ 510,313</u>

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	<u>\$403,238</u>	<u>\$ 45,047</u>	<u>\$448,285</u>

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 \$2,451,097 and \$2,398,500 at September 30, 2020 and 2019, respectively.

NOTE 13 — NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which it and all subsequent amendments to the ASU No. 2014-09, replaced most existing revenue recognition guidance in U.S. GAAP. The Organization adopted the provisions of this guidance on October 1, 2019 using the modified retrospective approach. The Organization has performed an assessment of its revenue contracts as well as worked with industry participants on matters of interpretation and application and has not identified any material changes to the timing or amount of its revenue recognition under ASU 2014-09. The Organization's accounting policies did not change materially as a result of applying the principles of revenue recognition from ASU 2014-09 and are largely consistent with existing guidance and current practices applied by the Organization.

In June 2018, the FASB issued ASU No. 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." The ASU provides guidance to distinguish recognition practices of contribution activity related to the adoption of ASU 2014-09. The Organization adopted the provisions of this guidance in conjunction with ASU 2014-09. There was no impact to revenue recognized for the years ended September 30, 2020 and 2019 as a result of implementing ASU 2018-08.

Supplementary Information

MICHIGAN STATE BAR FOUNDATION SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2020

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Expenses
U.S. Department of Treasury Passed through Michigan State Housing Development Authority Coronavirus Relief Funds — COVID-19 Eviction Diversion Program	21.019	\$1,327,719
Total federal expenditures		\$1,327,719

Michigan State Bar Foundation Notes to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2020

NOTE 1 — BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Michigan State Bar Foundation under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Michigan State Bar Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of Michigan State Bar Foundation.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Michigan State Bar Foundation has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The Organization does not pass through federal funds.

NOTE 3 — LOW-RISK AUDITEE STATUS

Michigan State Bar Foundation is not considered a low risk auditee due to September 30, 2020 being the first year in which they were required to have a single audit.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Michigan State Bar Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Michigan State Bar Foundation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan State Bar Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Michigan State Bar Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Michigan State Bar Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan State Bar Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 29, 2021

Supplementary Information (continued)

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Michigan State Bar Foundation

Report on Compliance for Each Major Federal Program

We have audited Michigan State Bar Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Michigan State Bar Foundation's major federal program for the year ended September 30, 2020. Michigan State Bar Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Michigan State Bar Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Michigan State Bar Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Michigan State Bar Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, Michigan State Bar Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of Michigan State Bar Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Michigan State Bar Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Michigan State Bar Foundation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

January 29, 2021

Supplementary Information (continued)

**MICHIGAN STATE BAR FOUNDATION
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

Year Ended September 30, 2020

**MICHIGAN STATE BAR FOUNDATION
SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended September 30, 2020

There were no audit findings for the year ended September 30, 2019.

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

Internal control over financial reporting:	<u>Unmodified</u>	
> Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
> Significant deficiency(ies) identified?	_____ Yes	_____ <u>X</u> None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

Federal Awards

Internal control over major programs:		
> Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
> Significant deficiency(ies) identified?	_____ Yes	_____ <u>X</u> None reported

Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?	_____ Yes	_____ <u>X</u> No

Identification of major programs:	
CFDA Number(s)	Name of Federal Program or Cluster
21.019	Coronavirus Relief Funds

Dollar threshold used to distinguish between type A and type B programs:	<u>\$750,000</u>
> Auditee qualified as low-risk auditee?	_____ Yes _____ <u>X</u> No

Section II — Financial Statement Findings

None noted.

Section III — Federal Award Findings and Questioned Costs

None noted.